



Legislative Fiscal Report

2005 Biennium

Volume 2 – Revenue Estimates

Presented to the Fifty-eighth Legislature

Submitted by the
Legislative Fiscal Division

Helena, Montana
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How to Use This Report

The following report provides a detailed profile of the revenue estimates adopted by the 2003 legislature for the 2005 biennium. It is arranged into six main revenue sections. Each section contains profiles of revenue sources that share common characteristics, have many of the same assumptions, and have common estimating methodologies. The six sections are:

1. Business Taxes
2. Natural Resource Taxes
3. Interest Earnings
4. Consumption Taxes
5. Property Taxes
6. Other General Fund Revenue

The sections are marked by divider pages that list each revenue source within that section. The sources are arranged alphabetically within each section.

The report contains profiles of each revenue source estimated by the 58th Legislature. Ten categories of information are provided for each source. These categories and a short description of each follow:

Revenue Description: A brief description of the source is provided including the origin of the revenue and, in the case of taxes and fees, the item that is taxed.

Applicable Tax Rate(s): This section provides an explanation of the tax rate or license fee, more detail on the items that are taxed, and other information such as exemptions, minimums, initial versus annual fees, etc.

Distribution: This section shows how the revenue is distributed. In cases where uses or entities other than general fund receive a portion of the revenue, percentage distribution or the dollar amount is shown for each recipient.

Summary of Legislative Action: Legislation affecting the revenue source and/or distribution is noted and explained. A table is provided showing the revenue impact of each piece of legislation.

Statute: These are the citations from the Montana Code Annotated (MCA) applicable to the revenue source.

% of Total FY 2002 General Fund Revenue: To give the reader an idea of the size of a particular revenue source, its percentage of total fiscal 2002 general fund revenue is provided.

Revenue Projection: This section consists of a graph and accompanying data table. The line graph shows the amount of actual collections and the projected amounts for fiscal years 2003, 2004, and 2005. Total collections are depicted by a dark line while general fund collections are shown by a lighter line. The data table contains historic information about this data source since 1979 including: 1) actual total collections; 2) actual general fund collections; 3) projected total and general fund amounts for fiscal years 2003, 2004, and 2005; and 4) the yearly percentage change in general fund.

Forecast Methodology: This section includes a flow chart illustrating a simplified diagram of the methodology used to determine the revenue estimates.

Distribution Methodology: This section includes a flow chart illustrating a simplified diagram of how the revenue received from the source is distributed in the state accounting system.

Revenue Estimate Assumptions: The data provided in these tables are used to derive the revenue estimate and do not reflect changes, if any, enacted by the 2003 legislature that may affect future estimates of the revenue source. The tables also show the revenue estimates for fiscal years 2003, 2004, and 2005, the estimated general fund amount, and, if applicable, distributions to other funds or uses.

The remaining portion of this document is the legislature's revenue estimates by revenue source.

Overview

General Fund Revenue Estimates
Non-General Fund Revenue Estimates
Economic Outlook For Montana



General Fund Revenue Estimates

House Joint Resolution 2

During November 2002, prior to the convening of the Fifty-eighth Legislature, the Revenue and Transportation Interim Committee (RTIC) formally adopted economic assumptions and the associated revenue estimates for fiscal 2003, 2004 and 2005. This process is in accordance with 5-18-107, MCA, which states that these estimates “constitute the legislature’s current revenue estimates until amended or until final adoption of the estimates by both houses.” The actions taken by the RTIC were incorporated into HJR 2 and were introduced at the beginning of the Fifty- eighth Legislature. During the legislative process, the legislature adopted HJR 2 with some adjustments to the recommendations offered by the RTIC. Figure 1 shows the total general fund impact of the adopted adjustments by the House and Senate by revenue category. For the three-year period, fiscal 2003 through 2005, total general fund revenue estimates were decreased by \$5.8 million from the recommendations of the RTIC.

Figure 1 Revenue Estimate Adjustments by 58th Legislature General Fund In Millions				
Revenue Issue	Fiscal 2003	Fiscal 2004	Fiscal 2005	3-Year Total
House Taxation Committee Action				
Fiscal 2002 Ending Fund Balance	(1.912)	-	-	(1.912)
PPL Protested Property Tax State Impact	(2.091)	(2.129)	(2.167)	(6.387)
Property Tax Reappraisal	-	2.017	6.118	8.135
Consumer Protection Settlements	0.300	-	-	0.300
Security Fraud Settlements	-	4.125	-	4.125
Merrill Lynch Settlement	0.500	-	-	0.500
Portfolio Fees Based on Class	-	1.008	1.008	2.016
Total House Adjustments	(\$3.203)	\$5.021	\$4.959	\$6.777
Senate Taxation Committee Action				
Individual Income Tax	(6.636)	-	-	(6.636)
Corporation Income Tax	(6.467)	-	-	(6.467)
TCA Interest Earnings	(3.744)	-	-	(3.744)
Property Tax	(0.968)	-	-	(0.968)
Oil and Natural Gas Production Tax	2.360	-	-	2.360
Estate Tax	0.862	-	-	0.862
Video Gambling Tax	0.802	-	-	0.802
Vehicle Tax	1.263	-	-	1.263
Total Senate Adjustments	\$ (12.528)	\$ -	\$ -	\$ (12.528)
Grand Total Adjustments	\$ (15.731)	\$ 5.021	\$ 4.959	\$ (5.751)

Figure 2 shows the amended current law general fund estimates by revenue category as contained in HJR 2. Actual fiscal 2002 collections are shown, along with projections for fiscal 2003 through 2005.

Figure 2 House Joint Resolution 2 General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of 2002	Actual Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 02-03	Estimated Fiscal 04-05	Cumulative % of Total
1 Individual Income Tax	40.89%	\$517.568	\$520.764	\$556.874	\$594.339	\$1,038.332	\$1,151.213	45.36%
2 Property Tax	13.38%	169.339	170.218	180.067	190.371	339.557	370.438	59.96%
3 Corporation Income Tax	5.39%	68.173	47.347	64.782	69.223	115.520	134.005	65.24%
4 Vehicle Tax	5.78%	73.127	74.773	74.540	75.581	147.900	150.121	71.15%
5 Common School Interest and Income	3.87%	48.938	-	-	-	48.938	-	71.15%
6 Insurance Tax & License Fees	3.74%	47.291	51.446	56.038	58.441	98.737	114.479	75.66%
7 Coal Trust Interest	2.97%	37.605	36.825	37.249	37.920	74.430	75.169	78.63%
8 US Mineral Royalty	1.56%	19.772	22.715	23.469	22.980	42.487	46.449	80.46%
9 All Other Revenue	3.41%	43.216	26.608	23.916	19.885	69.824	43.801	82.18%
10 Tobacco Settlement	1.47%	18.647	19.025	3.105	3.182	37.672	6.287	82.43%
11 Telecommunications Excise Tax	1.55%	19.594	20.100	20.701	21.674	39.694	42.375	84.10%
12 Video Gambling Tax	3.45%	43.666	45.219	44.755	45.811	88.885	90.566	87.67%
13 Treasury Cash Account Interest	0.98%	12.414	7.456	14.060	17.331	19.870	31.391	88.90%
14 Estate Tax	1.09%	13.816	11.015	7.516	4.625	24.831	12.141	89.38%
15 Oil & Natural Gas Production Tax	1.02%	12.902	18.403	14.600	14.469	31.305	29.069	90.53%
16 Motor Vehicle Fee	2.15%	27.271	27.703	28.368	29.049	54.974	57.417	92.79%
17 Public Institution Reimbursements	1.13%	14.283	15.541	13.939	14.046	29.824	27.985	93.89%
18 Lodging Facility Use Tax	0.00%	-	-	-	-	-	-	93.89%
19 Coal Severance Tax	0.67%	8.469	10.221	8.384	7.857	18.690	16.241	94.53%
20 Liquor Excise & License Tax	0.75%	9.514	9.854	10.239	10.624	19.368	20.863	95.35%
21 Cigarette Tax	0.62%	7.887	7.870	7.764	7.667	15.757	15.431	95.96%
22 Investment License Fee	0.39%	4.992	4.567	4.613	4.659	9.559	9.272	96.33%
23 Lottery Profits	0.59%	7.467	6.210	6.255	6.318	13.677	12.573	96.82%
24 Liquor Profits	0.44%	5.600	5.637	5.399	5.365	11.237	10.764	97.25%
25 Nursing Facilities Fee	0.47%	5.918	5.723	5.670	5.624	11.641	11.294	97.69%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.69%
27 Electrical Energy Tax	0.33%	4.197	4.329	4.408	4.483	8.526	8.891	98.04%
28 Metalliferous Mines Tax	0.26%	3.329	4.842	2.967	2.753	8.171	5.720	98.27%
29 Highway Patrol Fines	0.32%	4.062	4.142	4.224	4.308	8.204	8.532	98.60%
30 Public Contractors Tax	0.26%	3.267	2.679	3.354	3.356	5.946	6.710	98.87%
31 Wholesale Energy Tax	0.23%	2.906	3.373	3.432	3.492	6.279	6.924	99.14%
32 Tobacco Tax	0.17%	2.183	2.262	2.353	2.444	4.445	4.797	99.33%
33 Driver's License Fee	0.20%	2.580	2.355	2.373	2.391	4.935	4.764	99.52%
34 Railroad Car Tax	0.12%	1.490	1.577	1.688	1.681	3.067	3.369	99.65%
35 Wine Tax	0.10%	1.232	1.264	1.283	1.302	2.496	2.585	99.75%
36 Beer Tax	0.22%	2.784	2.918	3.058	3.205	5.702	6.263	100.00%
37 Telephone License Tax	0.02%	0.212	0.033	-	-	0.245	-	100.00%
38 Long Range Bond Excess	<u>0.00%</u>	-	-	-	-	-	-	<u>100.00%</u>
Total General Fund	100.00%	<u>\$1,265.713</u>	<u>\$1,195.014</u>	<u>\$1,241.443</u>	<u>\$1,296.456</u>	<u>\$2,460.727</u>	<u>\$2,537.899</u>	100.00%

Revenue Impacts of Legislation

Figure 3 shows the revenue impacts of legislation enacted by the Fifty-eighth Legislature. If more than one bill was enacted that impacts a given revenue source, the cumulative impact of the bills is shown for each revenue source.

Figure 3 Revenue Legislation Impacts of 58th Legislature Total General Fund In Millions						
Source of Revenue	Estimated Fiscal 2003	Estimated Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 02-03	Estimated Fiscal 04-05	Estimated 03,04,05
1 Individual Income Tax	\$0.000	\$1.185	(\$16.277)	\$0.000	(\$15.092)	(\$15.092)
2 Property Tax	-	(5.756)	(15.475)	-	(21.231)	(21.231)
3 Corporation Income Tax	-	(0.020)	(0.178)	-	(0.198)	(0.198)
4 Vehicle Tax	-	5.234	2.683	-	7.917	7.917
5 Common School Interest and Income	-	-	-	-	-	-
6 Insurance Tax & License Fees	-	-	-	-	-	-
7 Coal Trust Interest	-	(0.062)	(0.114)	-	(0.176)	(0.176)
8 US Mineral Royalty	-	-	-	-	-	-
9 All Other Revenue	18.741	12.338	8.900	18.741	21.238	39.979
10 Tobacco Settlement	-	-	-	-	-	-
11 Telecommunications Excise Tax	-	0.489	0.498	-	0.987	0.987
12 Video Gambling Tax	-	0.257	0.257	-	0.514	0.514
13 Treasury Cash Account Interest	-	-	-	-	-	-
14 Estate Tax	-	-	-	-	-	-
15 Oil & Natural Gas Production Tax	3.273	12.332	12.230	3.273	24.562	27.835
16 Motor Vehicle Fee	-	3.394	5.252	-	8.646	8.646
17 Public Institution Reimbursements	0.310	2.818	2.947	0.310	5.765	6.075
18 Lodging Facility Use Tax	0.710	8.807	9.084	0.710	17.891	18.601
19 Coal Severance Tax	-	-	-	-	-	-
20 Liquor Excise & License Tax	-	-	-	-	-	-
21 Cigarette Tax	4.538	27.229	26.287	4.538	53.516	58.054
22 Investment License Fee	-	0.005	0.005	-	0.010	0.010
23 Lottery Profits	-	(0.660)	0.664	-	0.004	0.004
24 Liquor Profits	-	0.001	-	-	0.001	0.001
25 Nursing Facilities Fee	-	0.034	0.041	-	0.075	0.075
26 Foreign Capital Depository Tax	-	-	-	-	-	-
27 Electrical Energy Tax	-	-	-	-	-	-
28 Metalliferous Mines Tax	-	-	-	-	-	-
29 Highway Patrol Fines	-	0.473	0.473	-	0.946	0.946
30 Public Contractors Tax	-	-	-	-	-	-
31 Wholesale Energy Tax	-	-	-	-	-	-
32 Tobacco Tax	0.137	0.821	0.834	0.137	1.655	1.792
33 Driver's License Fee	-	0.477	0.490	-	0.967	0.967
34 Railroad Car Tax	-	-	-	-	-	-
35 Wine Tax	-	-	-	-	-	-
36 Beer Tax	-	-	-	-	-	-
37 Telephone License Tax	-	-	-	-	-	-
38 Long Range Bond Excess	-	-	-	-	-	-
Total General Fund	<u>\$27.709</u>	<u>\$69.396</u>	<u>\$38.601</u>	<u>\$27.709</u>	<u>\$107.997</u>	<u>\$135.706</u>

Figure 4 shows the revenue impacts of legislation enacted by the Fifty-eighth legislature summarized by bill number. For the three year period, fiscal 2003 through 2005, total general fund revenues were increased by \$135.7 million. Four bills, (HB363 old fund transfer, HB559 vehicle registration fees, SB294 protested property tax, and SB407 income tax reduction/sales tax) accounted for about 87 percent of this increased revenue.

Figure 4
Impact of Enacted Legislation By Bill Number
General Fund and Total Funds

Bill Number and Short Description	General Fund Impact Fiscal 2003	General Fund Impact Fiscal 2004	General Fund Impact Fiscal 2005	General Fund Impact 03,04,05	Total Funds Impact 03,04,05
HB0002 General appropriations act	\$0	(\$1,158,075)	\$174,677	(\$983,398)	(\$1,098,891)
HB0010 CERCLA bonds for Libby reclamation state matching funds	-	-	-	-	-
HB0062 Revise apiculture laws	-	(17,730)	(17,730)	(35,460)	79,182
HB0096 Eliminate advanced telecommunications infrastructure tax credit	-	300,000	300,000	600,000	600,000
HB0121 Clarify deposit of payment from state hospital and nursing care center	-	3,180,119	3,180,119	6,360,238	6,360,238
HB0141 Felony for causing high speed pursuit	-	6,200	6,200	12,400	12,400
HB0159 Separate licensure of food manufacturers from retail establishments	-	337	337	674	23,175
HB0160 Reauthorize natural resource damage program	-	(21,807)	(44,135)	(65,942)	(65,942)
HB0186 Revise motor vehicle dealer licensing	-	18,331	18,331	36,662	36,662
HB0195 Mandatory penalty provisions for DUI offenders -- for federal funding	-	271,200	352,200	623,400	623,400
HB0206 Change driver license fee -- distribution	-	437,740	437,740	875,480	1,646,836
HB0215 Fee for reinstatement of driver's license	-	309,000	619,800	928,800	928,800
HB0237 Require muffler on motor vehicle with compression brakes	-	650	650	1,300	1,300
HB0261 Increase municipal finance debt limits -increase vehicle fees to repay loan	-	51,266	52,343	103,609	4,989,119
HB0280 Authorize use of originally-issued vintage automobile license plates	-	23,000	(10,500)	12,500	12,500
HB0363 Remove reserve requirements for old fund	18,268,000	4,300,000	3,780,000	26,348,000	26,348,000
HB0452 Tax credit for developmentally disabled funding	-	139,800	25,200	165,000	165,000
HB0478 Allow for driver license suspension for failure to comply with sentence	-	721,240	1,175,560	1,896,800	1,896,800
HB0480 Increase penalty for failure to report motor vehicle accidents	-	26,400	26,400	52,800	52,800
HB0537 Require study to recalculate annual sustainable yield on forested state lands	-	-	-	-	591,629
HB0538 Revise laws on motor vehicle titling and registration	-	25,118	50,235	75,353	138,149
HB0549 Increase scholarship donation for collegiate license plates	-	-	-	-	455,700
HB0559 Registration decal as evidence of fee payment for vehicles and vessels	-	6,336,923	3,996,451	10,333,374	10,333,374
HB0564 Create primary sector business workforce training act	-	122,238	525,709	647,947	647,947
HB0616 Revise endowed philanthropy tax credit	-	1,379,000	563,000	1,942,000	1,942,000
HB0618 Double driver license reinstatement fee	-	-	-	-	894,600
HB0677 Justice court jurisdiction over natural streambed and land preservation	-	(1,500)	(1,500)	(3,000)	(3,000)

Figure 4 continued on next page

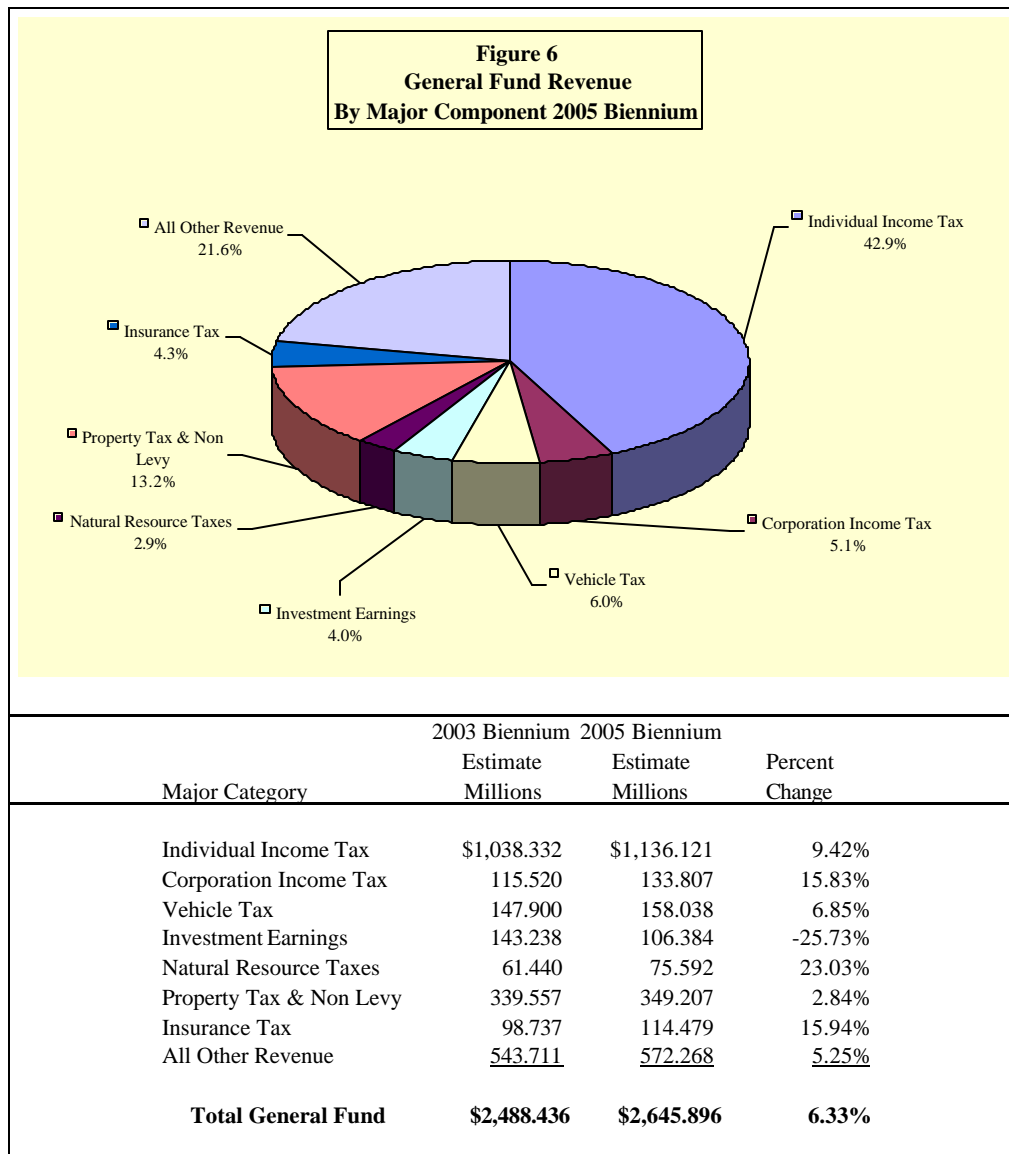
Figure 4 (continued)
Impact of Enacted Legislation By Bill Number
General Fund and Total Funds

Bill Number and Short Description	General Fund Impact Fiscal 2003	General Fund Impact Fiscal 2004	General Fund Impact Fiscal 2005	General Fund Impact 03,04,05	Total Funds Impact 03,04,05
HB0689 Revise laws relating to lobbying	-	-	(9,700)	(9,700)	(29,100)
HB0705 Increase utilization fee on nursing facility bed days	-	-	-	-	8,671,517
HB0711 Driver license expiration notification	-	39,375	52,500	91,875	91,875
HB0721 Revise water's edge election for corporate taxation	-	-	-	-	375,000
HB0722 Provider tax on intermediate care facilities	410,687	820,429	792,011	2,023,127	3,156,447
HB0727 Close Eastmont Human Services Center	-	(1,054,171)	(909,844)	(1,964,015)	(1,964,015)
HB0743 Include mental health nursing care center in bed tax	-	118,287	138,705	256,992	432,265
HB0748 Simplification of oil and natural gas tax distribution	3,272,910	-	-	3,272,910	3,272,910
HB0758 Surcharge fee on video gambling machines and smoking ordinance exemption	-	256,710	256,710	513,420	513,420
HB0767 Revise motor vehicle and driving record laws	-	21,628	12,023	33,651	153,967
SB0013 Reduce DUI blood alcohol to .08 for federal highway aid funds	-	30,000	30,000	60,000	60,000
SB0026 Revise Title Loan Act	-	(32,000)	(32,000)	(64,000)	-
SB0035 Revise criminal procedure for developmentally disabled	-	25,645	-	25,645	25,645
SB0065 Revise veteran's property tax and vehicle fee benefits	-	(6,585)	(117,677)	(124,262)	(131,201)
SB0089 Exempt local governments from uniform unclaimed property act	(34,750)	(139,000)	(139,000)	(312,750)	(312,750)
SB0112 Fund search and rescue with certain fees	-	34,566	52,108	86,674	86,674
SB0118 License plates -- delay new issue, change costs, generic specialty plates	-	607,443	961,742	1,569,185	1,569,185
SB0121 Revise taxation of pass-through entities	-	50,000	200,000	250,000	250,000
SB0128 State special revenue account for criminal history record dissemination	-	(182,776)	(182,776)	(365,552)	-
SB0130 Revise laws on recreational use of trust land	-	-	-	-	691,177
SB0131 Board of Investments purchase of loans from local development organizations	-	(40,000)	(70,000)	(110,000)	(110,000)
SB0138 Revise tax laws on alternative energy and energy conservation	-	169,661	313,781	483,442	510,442
SB0144 Revise securities laws	-	6,000	6,000	12,000	12,000
SB0159 Tax exemption for certain RR property leased to nonprofit organization	-	(1,073)	(1,073)	(2,146)	(2,282)
SB0271 Eliminate POINTS system -- UI tax not under replacement system	-	(196,650)	(1,703,350)	(1,900,000)	-
SB0294 Revise interest rate applied to refund of protested property taxes	-	8,359,523	2,660,278	11,019,801	11,711,710
SB0336 Implement recommendations of state parks future committee	-	1,092,349	2,087,182	3,179,531	3,179,531
SB0362 Revise penalties for minor in possession law violations	-	19,250	19,250	38,500	38,500
SB0387 Conform retail telecommunication excise tax to federal mobile sourcing act	-	189,000	198,000	387,000	387,000
SB0401 Revise membership and duties concerning veterans affairs	-	433,075	731,396	1,164,471	2,281,588
SB0407 Income tax reduction with revenue from limited sales tax	5,792,382	40,583,521	24,155,429	70,531,332	75,138,431
SB0408 Adjustment to state income tax for certain health care professionals	-	(37,500)	(37,500)	(75,000)	(75,000)
SB0409 Development plan for otter creek tracts	-	-	-	-	(300,000)
SB0415 Revise law on golf course beer and wine licenses	-	500	400	900	900
SB0460 Revise definitions applicable to metal mines license tax	-	-	-	-	-
SB0461 Mitigate effects of cyclical reappraisal	-	(1,924,461)	(6,079,208)	(8,003,669)	(8,506,360)
SB0464 Revise health and safety laws regarding food establishments	-	4,050	3,750	7,800	7,800
SB0493 Revise motor vehicle computer system law to implement appropriations bill	-	<u>3,700,000</u>	-	<u>3,700,000</u>	<u>3,700,000</u>
Total Impact of Legislation Listed Above	\$27,709,229	\$69,396,246	\$38,600,224	\$135,705,699	\$162,499,054

Figure 5 shows the revised general fund revenue estimates by source which is the sum of HJR 2 estimates and all enacted legislation impacts. These revised estimates are used in “Volume 1 – Statewide Perspectives” to determine the overall financial condition of the general fund for the 2003 and 2005 biennia.

Figure 5 House Joint Resolution 2 Plus Legislation Impacts General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of 2002	Actual Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 02-03	Estimated Fiscal 04-05	Cumulative % of Total
1 Individual Income Tax	40.89%	\$517.568	\$520.764	\$558.059	\$578.062	\$1,038.332	\$1,136.121	42.94%
2 Property Tax	13.38%	169.339	170.218	174.311	174.896	339.557	349.207	56.14%
3 Corporation Income Tax	5.39%	68.173	47.347	64.762	69.045	115.520	133.807	61.19%
4 Vehicle Tax	5.78%	73.127	74.773	79.774	78.264	147.900	158.038	67.17%
5 Common School Interest and Income	3.87%	48.938	-	-	-	48.938	-	67.17%
6 Insurance Tax & License Fees	3.74%	47.291	51.446	56.038	58.441	98.737	114.479	71.49%
7 Coal Trust Interest	2.97%	37.605	36.825	37.187	37.806	74.430	74.993	74.33%
8 US Mineral Royalty	1.56%	19.772	22.715	23.469	22.980	42.487	46.449	76.08%
9 All Other Revenue	3.41%	43.216	45.349	36.254	28.785	88.565	65.039	78.54%
10 Tobacco Settlement	1.47%	18.647	19.025	3.105	3.182	37.672	6.287	78.78%
11 Telecommunications Excise Tax	1.55%	19.594	20.100	21.190	22.172	39.694	43.362	80.42%
12 Video Gambling Tax	3.45%	43.666	45.219	45.012	46.068	88.885	91.080	83.86%
13 Treasury Cash Account Interest	0.98%	12.414	7.456	14.060	17.331	19.870	31.391	85.05%
14 Estate Tax	1.09%	13.816	11.015	7.516	4.625	24.831	12.141	85.51%
15 Oil & Natural Gas Production Tax	1.02%	12.902	21.676	26.932	26.699	34.578	53.631	87.53%
16 Motor Vehicle Fee	2.15%	27.271	27.703	31.762	34.301	54.974	66.063	90.03%
17 Public Institution Reimbursements	1.13%	14.283	15.851	16.757	16.993	30.134	33.750	91.31%
18 Lodging Facility Use Tax	0.00%	-	0.710	8.807	9.084	0.710	17.891	91.98%
19 Coal Severance Tax	0.67%	8.469	10.221	8.384	7.857	18.690	16.241	92.60%
20 Liquor Excise & License Tax	0.75%	9.514	9.854	10.239	10.624	19.368	20.863	93.38%
21 Cigarette Tax	0.62%	7.887	12.408	34.993	33.954	20.295	68.947	95.99%
22 Investment License Fee	0.39%	4.992	4.567	4.618	4.664	9.559	9.282	96.34%
23 Lottery Profits	0.59%	7.467	6.210	5.595	6.982	13.677	12.577	96.82%
24 Liquor Profits	0.44%	5.600	5.637	5.400	5.365	11.237	10.765	97.22%
25 Nursing Facilities Fee	0.47%	5.918	5.723	5.704	5.665	11.641	11.369	97.65%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.65%
27 Electrical Energy Tax	0.33%	4.197	4.329	4.408	4.483	8.526	8.891	97.99%
28 Metalliferous Mines Tax	0.26%	3.329	4.842	2.967	2.753	8.171	5.720	98.20%
29 Highway Patrol Fines	0.32%	4.062	4.142	4.697	4.781	8.204	9.478	98.56%
30 Public Contractors Tax	0.26%	3.267	2.679	3.354	3.356	5.946	6.710	98.82%
31 Wholesale Energy Tax	0.23%	2.906	3.373	3.432	3.492	6.279	6.924	99.08%
32 Tobacco Tax	0.17%	2.183	2.399	3.174	3.278	4.582	6.452	99.32%
33 Driver's License Fee	0.20%	2.580	2.355	2.850	2.881	4.935	5.731	99.54%
34 Railroad Car Tax	0.12%	1.490	1.577	1.688	1.681	3.067	3.369	99.67%
35 Wine Tax	0.10%	1.232	1.264	1.283	1.302	2.496	2.585	99.76%
36 Beer Tax	0.22%	2.784	2.918	3.058	3.205	5.702	6.263	100.00%
37 Telephone License Tax	0.02%	0.212	0.033	-	-	0.245	-	100.00%
38 Long Range Bond Excess	<u>0.00%</u>	-	-	-	-	-	-	<u>100.00%</u>
Total General Fund	100.00%	<u>\$1,265.713</u>	<u>\$1,222.723</u>	<u>\$1,310.839</u>	<u>\$1,335.057</u>	<u>\$2,488.436</u>	<u>\$2,645.896</u>	100.00%

Figure 6 shows the revenue contribution to the general fund by the most significant revenue components. During the 2005 biennium, over 67 percent of total general fund revenue comes from income, property, and vehicle taxes, while about 4 percent is generated from investment earnings. Natural resource taxes are estimated to produce about 3 percent of total general fund revenue during the 2005 biennium. The information shown in Figure 6 illustrates the significant dependence the state has on income, property, and vehicle taxes to fund general government operations. In addition, Figure 6 shows the general fund will receive an estimated \$106 million in the 2005 biennium from investment earnings. Although these revenues are due to the investment by the state of taxpayer dollars, they can be viewed as taxpayer savings or relief. Without these revenues, the state would either have to cut services, increase other revenues, or do a combination of both.



Total general fund revenues for the 2005 biennium are projected to increase 6.3 percent over the 2003 biennium projections. The comparative change by major revenue category is shown at the bottom of Figure 6. Included in this increase is \$108.0 million of additional revenue in the 2005 biennium due to the enactment of the legislation shown in Figure 4.

Non-General Fund Revenue Estimates

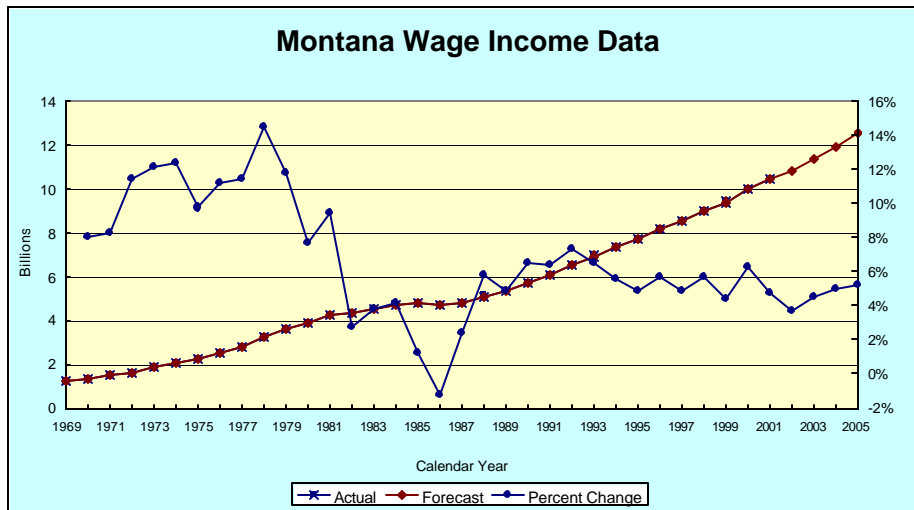
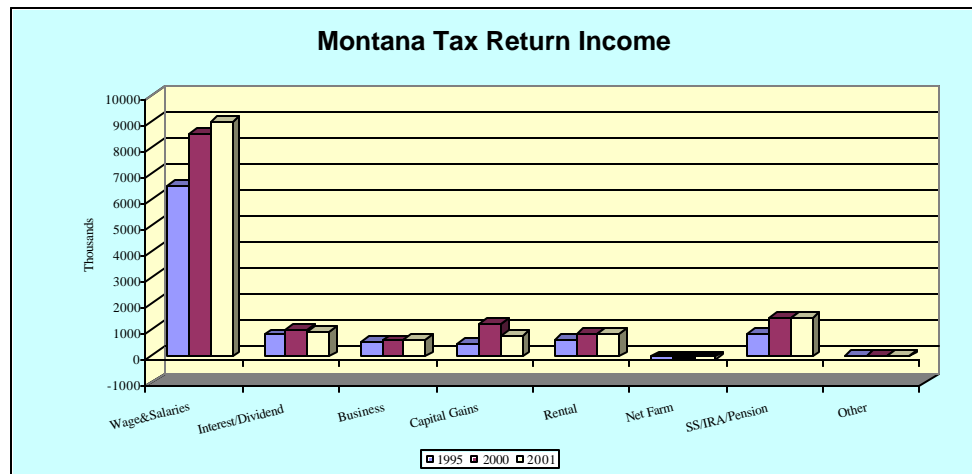
Figure 7 shows estimates for selected non-general fund revenue for fiscal years 2003, 2004, and 2005. These estimates were adopted because of their importance in the budgeting process.

Figure 7 House Joint Resolution 2 Plus Legislation Impacts Non-General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of Total	Actual Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 02-03	Estimated Fiscal 04-05	Cumulative % of Total
1 Diesel Tax	17.83%	\$58.261	\$59.180	\$60.041	\$60.903	\$117.441	\$120.944	18.15%
2 Federal Forest Receipts	4.12%	13.475	13.583	13.775	13.976	27.058	27.751	22.32%
3 Gasoline Tax	40.32%	131.731	132.446	133.185	133.918	264.177	267.103	62.40%
4 GVW and Other Fees	8.35%	27.266	27.037	26.729	26.377	54.303	53.106	70.37%
5 Lodging Facility Use Tax	3.64%	11.901	12.441	13.005	13.595	24.342	26.600	74.37%
6 Resource Indemnity Tax	0.67%	2.201	1.080	1.055	1.062	3.281	2.117	74.68%
7 Arts Trust Interest	0.09%	0.305	0.314	0.322	0.337	0.619	0.659	74.78%
8 Capital Land Grant Interest and Income	0.34%	1.101	0.827	0.831	0.631	1.928	1.462	75.00%
9 Deaf & Blind Interest and Income	0.09%	0.284	0.292	0.297	0.302	0.576	0.599	75.09%
10 Parks Trust Interest	0.34%	1.106	1.114	1.127	1.153	2.220	2.280	75.43%
11 Pine Hills Interest and Income	0.11%	0.355	0.348	0.361	0.370	0.703	0.731	75.54%
12 RIT Trust Interest	2.24%	7.321	7.376	7.377	7.379	14.697	14.756	77.76%
13 TSE Trust Interest	2.08%	6.805	7.201	7.871	8.472	14.006	16.343	80.21%
14 Property Tax: 6 Mill	3.61%	11.806	11.627	11.588	11.280	23.433	22.868	83.64%
15 Property Tax: 9 Mill	0.09%	0.286	-	-	-	0.286	0.000	83.64%
16 Tobacco Trust Interest	0.30%	0.968	1.741	2.464	3.253	2.709	5.717	84.50%
17 Regional Water Trust Interest	0.20%	0.643	1.151	1.404	1.670	1.794	3.074	84.96%
18 Common School Interest and Income	<u>15.57%</u>	<u>50.875</u>	<u>51.175</u>	<u>49.767</u>	<u>50.433</u>	<u>102.050</u>	<u>100.200</u>	<u>100.00%</u>
Total Non-General Fund	100.00%	\$326.689	\$328.933	\$331.199	\$335.111	\$655.622	\$666.310	100.00%

Economic Outlook For Montana

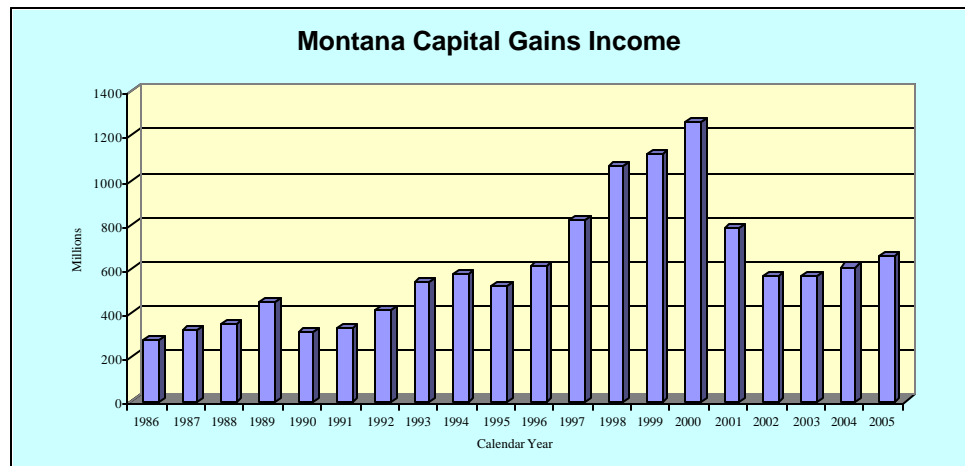
Montana Total Income

The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income. The Department of Revenue tracks income from 11 different components, including wages, interest, dividends, business, capital gains, supplemental, rental, farm, social security, IRA and pension, and other incomes. Montana total income is the single most important variable to consider in the revenue estimation process. Of the 11 income items, wage and salary income provides the largest portion of Montana total income. Since 1990, wage and salary income has contributed an annual average of 65.2 percent of total income. In calendar 2001, it contributed 65.8 percent, or \$9.013 billion. The average annual growth from calendar 1990 to 2001 has been 5.5 percent.



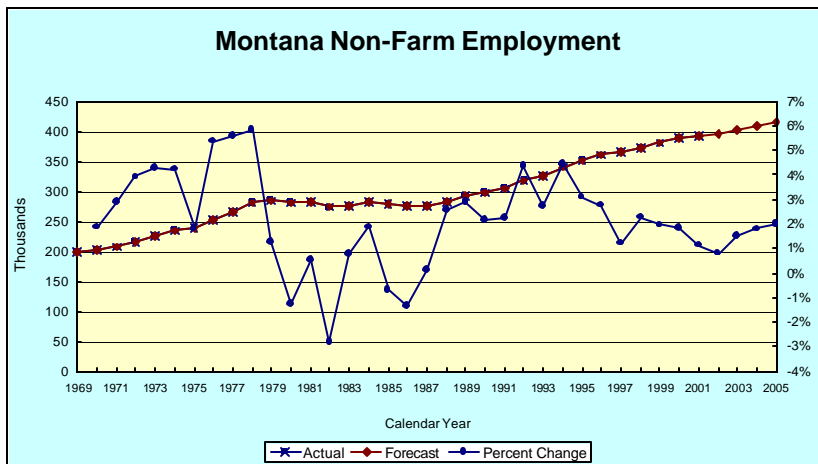
In recent times, capital gains income has been the focus of much conversation and speculation. Capital gains income has increased in relative importance over the decade. In 1990, capital gains made up only 4.2 percent of total income, with reported income of \$318 million. In 2000, capital gains contributed 9.2 percent of total income, at \$1.260 billion. In 2001, capital gains receded to 5.7 percent of total income, with income at \$786 million. That equates to a reduction of over 37.6 percent over the previous year, or \$474 million in income.

For the 2005 biennium, growth in wages and salaries is expected to be slow in calendar 2002 and 2003, while gradually increasing to about 5 percent by calendar 2005. Capital gains is projected to decline an additional 28 percent in calendar 2002 and remain flat in calendar 2003. For the last two years of the biennium, capital gains are estimated to rebound to a historic growth rate of 7.5 percent per year.



Montana Employment

Like personal income, employment plays a key role in shaping the estimate of the individual income tax revenues. Furthermore, the information allows a view into the changing employment climate in Montana, where jobs are migrating, and how incomes might be altered. Dr. Paul Polzin, Director of the Montana Bureau of Business and Economic Research, is one of the several

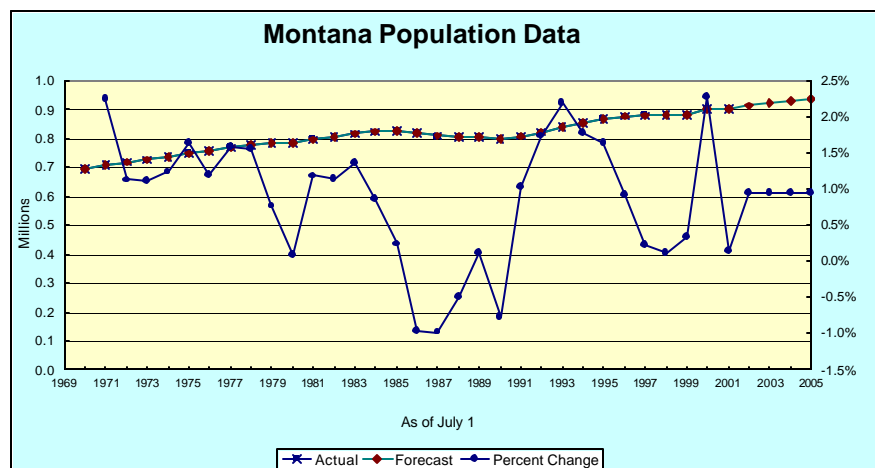


sources that provide information concerning the changing industrial make up of the state. Specific detailed data is gathered from the Montana Department of Labor, Research and Analysis Division. The statistics collected include employment in manufacturing, mining, construction, public utilities, whole and retail, finance, insurance, real estate, services, and government sectors. Average annual growth since 1996 has been 2.0 percent. The estimates for future growth, during the forecast period, reflects a gradual increase of 0.8 percent in calendar 2002 to 1.8 percent by calendar 2005. Over the past decade, the largest area of growth was seen in construction employment, which

experienced 98.1 percent positive growth. The service sectors follows, experiencing 55.4 percent growth in the same period. Mining is the only area that saw negative growth, with a workforce reduction of 12.7 percent since 1990.

Montana Population

Population statistics are used to develop estimates for many of the revenue sources including beer, wine, liquor, and cigarette taxes. In addition to those sources where population has a direct effect, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide. Accurate population estimates are especially important when determining the changes expected in overall and per capita income for the state.



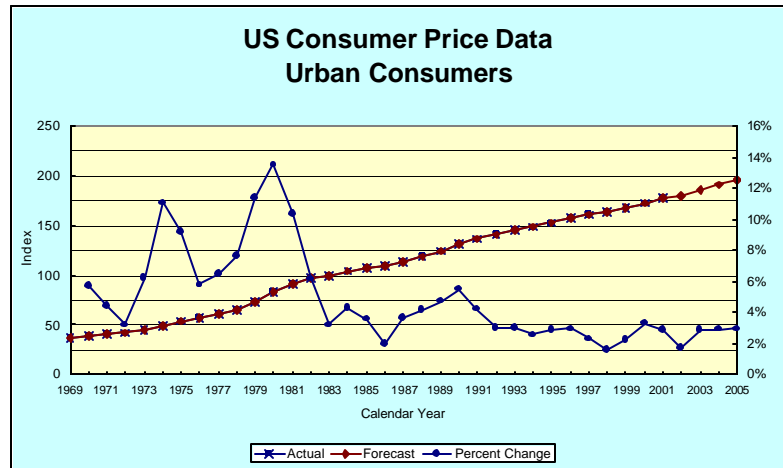
Consumption of any given item is highly reliant upon the size of the population, so accurate population forecasts are essential when determining tax revenues from the sources mentioned above. Historic population data is gathered from the U.S. Census department while projections are obtained from Woods and Poole Econometric Service. Since the early 1990's, Montana has experienced positive growth in total population varying between 0.1 percent in 1998 to 2.3 percent in 2000. Growth through the next biennium is estimated at 0.9 percent annually.

Inflation Rates

The inflation rate is measured by the price change of the Consumer Price Index (CPI) "shopping basket" of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable.

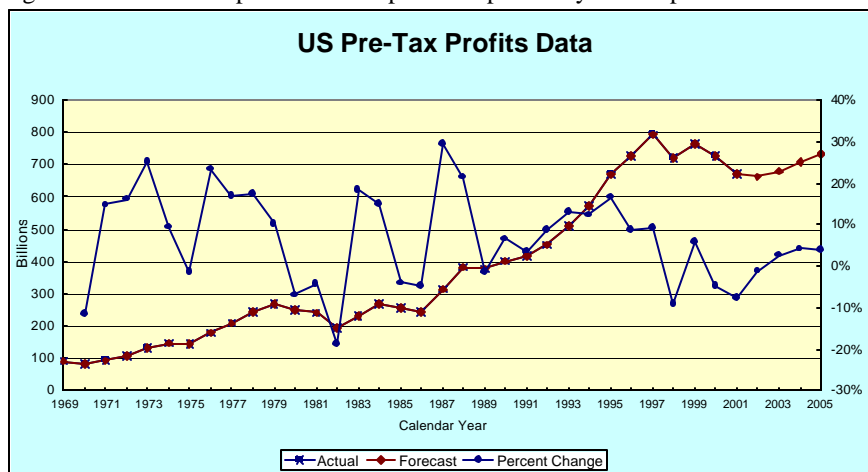
At the same time, the consumer realizes a reduction in disposable income and spends less. Several areas where this information is vital in determining costs include minerals, timber, energy resources, and most services.

Since Montana's individual income tax structure is fully indexed by changes in the consumer price index, this assumption is critical in the formulation of the individual income tax forecasts. The U.S. Bureau of Labor Statistics provides the required CPI data for the all-urban customers data set. Since 1990, the average annual rate of inflation has been 3.0 percent. Global Insight Company. (formerly DRI-WEFA) estimates inflation during the next biennium at an average annual rate of 2.9 percent.



Corporate Profits

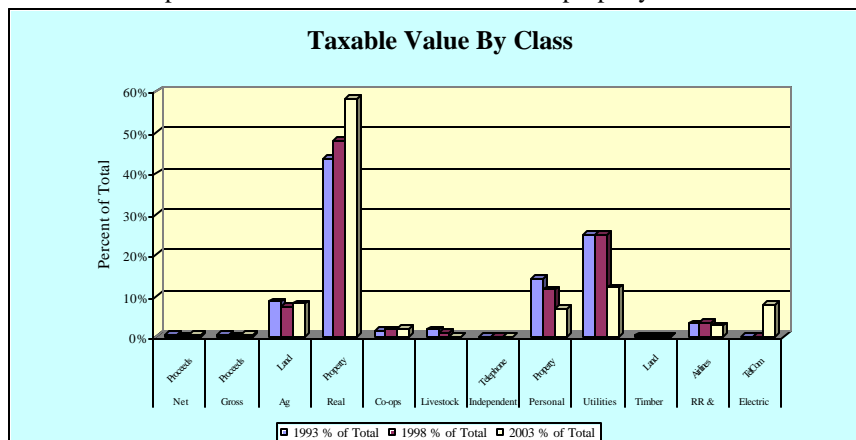
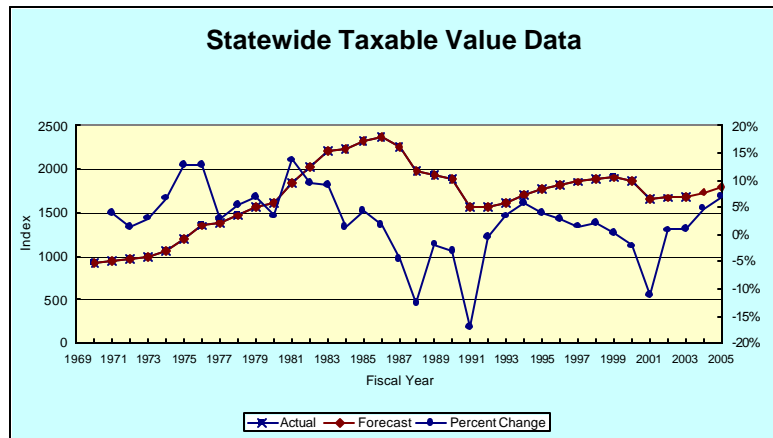
The profitability of corporate America is an important factor in estimating the revenues from the corporate license tax. There is a significant relationship between the profits reported by US corporations and those taxed in Montana. Many of the large



corporations operating in Montana are multi-state entities. During the most recent years, the reduction of corporate profits has translated to lower corporate license tax collections. According to Global Insight, between 1990 and 1997, US corporation pre-tax profits increased by an annual average of 9.8 percent. However, from 1998 through 2001, profits have decreased by an average of 3.9 percent, the greatest decrease of 7.7 percent occurring in 2001. The reduction in corporate profits is projected to continue through 2002, at which time the outlook of corporate profitability is expected begin a phase of slow improvement.

Property Values

Change in statewide property values is the critical assumption behind the estimates for property taxes. Historic property values are obtained from the Montana Department of Revenue. Total statewide taxable value increased slowly during the first part of the 1990's but fell in both fiscal 2000 and 2001. This decline was primarily due to changes in law by the 1999 legislature that led to reductions in tax rates on business equipment, electrical generating and telecommunications property, and the phased elimination of taxes on livestock. Estimates of total statewide taxable value for the 2005 biennium include the impacts of reappraisal on residential and commercial real estate, and agricultural land, although these are not reflected in the statewide taxable value chart. Estimates of the new reappraised values were presented to the legislature, which in response passed SB 461. SB 461 reduced tax rates for residential, commercial and agricultural land and raised the homestead and comstead exemptions for residential and commercial property. On



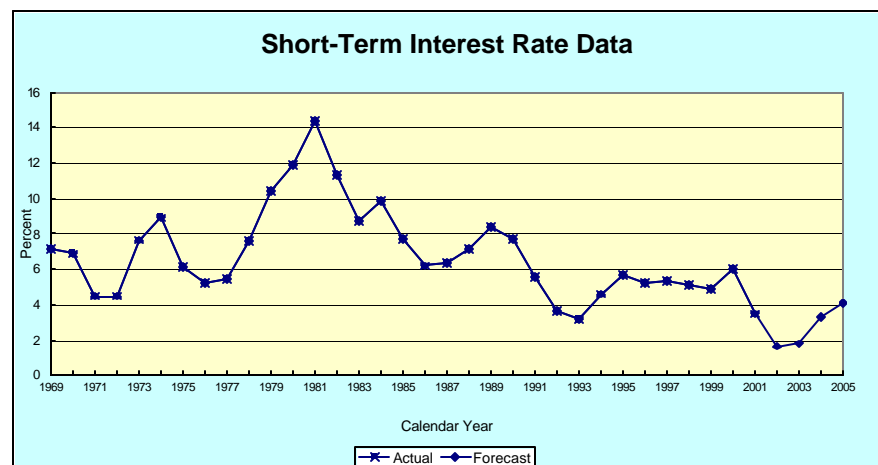
a statewide basis, the new taxable values for the 2005 biennium are close to the values that would have been in force in the absence of reappraisal.

Significant changes have taken place in statewide property values since fiscal 1998. In that year, 48.0 percent of total statewide value was in class 4, residential and commercial property, and 11.5 percent of total value was in class 8, business equipment personal property. In fiscal 2003, the class 4 taxable value is expected to make up 58.4 percent of the total property tax base, while class 8 will be only 7.0 percent of the base.

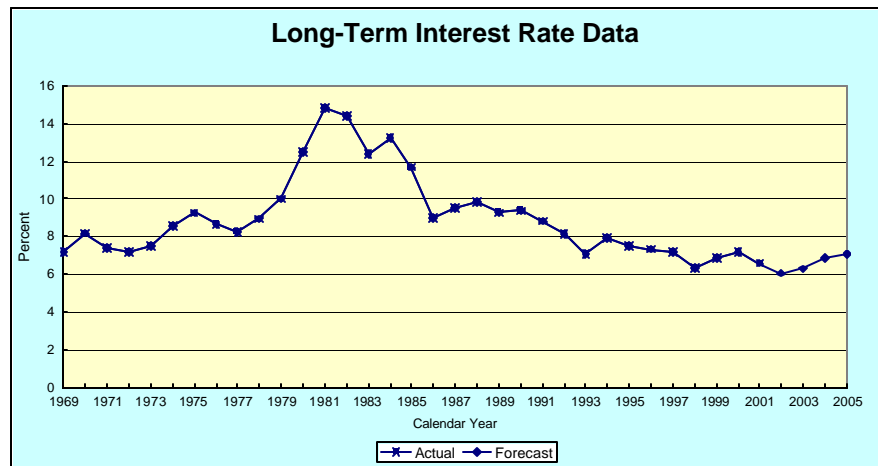
Interest Rates

A large portion of Montana's revenues is derived from investment earnings from trust accounts and daily cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. As such, interest rates are a significant assumption when estimating future state revenues.

In addition to the state revenue impact, interest rates are fundamental in understanding the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana's trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase. Two types of interest rates, long and short term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments.

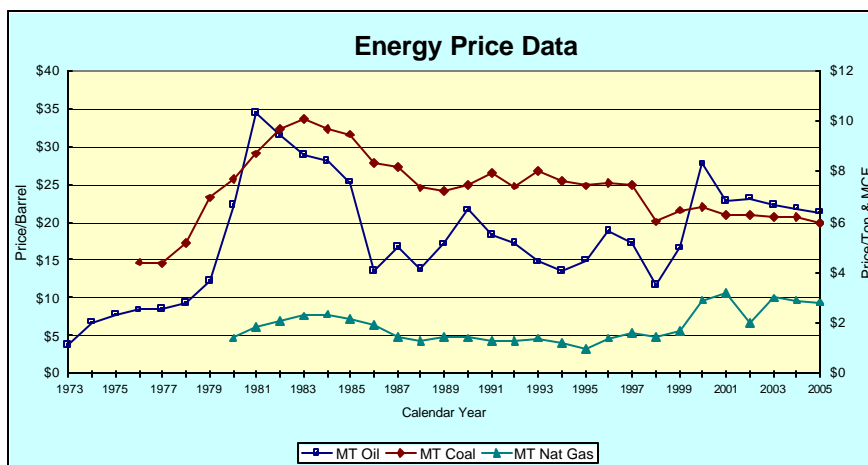


The forecasted rates are obtained from Global Insight. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year T bonds, and 30-year T bonds. Short term rates are an average of 3 and 6-month Corporate paper and 3 and 6-month T bills. Long and short term interest rates have been on the decline since January 2001, when the Federal Reserve began reducing the discount rate. Rates are expected to reverse and begin an upward trend during the forecast period.



Energy Prices

Energy prices are very important to Montana's economy. Montana's rich bounty of energy land holdings plays an important part in the state's employment and economic stability. Additionally, the taxation of those commodities adds significant revenues to the state's coffers. Coal, oil, and natural gas production are each taxed on the value of production. Global Insight supplies information on coal, oil, and natural gas prices. Among the specific energy price indexes forecast by Global Insight are the *U.S. Refiner's Acquisition Price*, the *U.S. Minemouth Coal Price* and the *West Texas Oil Price*. This information plus conversations with industry experts is used to develop Montana's energy prices.



Since 1990, the price of Montana coal has decreased 16.3 percent, oil has increased by 5.8 percent, and natural gas has increased by 123.5 percent. Estimates show a slow decline in the prices of all three of these commodities during the forecast period.

Summary

A complete summary of each general fund and selected non-general fund revenue source follows. Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates, and distribution mechanisms. A legislation impact table (if applicable) is shown summarizing all bills that impact the particular source of revenue.

It should be noted that the revenue projection table and graph are based on HJR2 estimates plus the impacts, if any, of enacted legislation. The corresponding revenue estimate assumption tables reflect only assumptions pertinent to the HJR2 revenue estimates and have not been updated for the impacts of enacted legislation.